

Minneapolis Community Development Agency

Request for City Council Action

Date: December 2, 2003

To: Council Member Lisa Goodman, Community Development Committee
Council Member Barbara Johnson, Ways and Means/Budget Committee

Prepared by Jim Forsyth, Project Coordinator, Phone 612-673-5179

Approved by Lee Sheehy, CPED Executive Director
Chuck Lutz, CPED Deputy Executive Director _____

Subject: River Terminal 2003 Appropriation Amendment, Approval of 2004 Operating Budget and Authorization to Amend Operating Agreement With River Services Inc.

Previous Directives: In November of 1999 the City Council approved an Operating agreement with River Services Inc. (RSI) that obligated the City to reimburse RSI for expenses incurred in operating the Terminal, to pay RSI a fee to manage the facility and to approve in advance each year's Operating Budget.

Ward: 3

Neighborhood Group Notification: Not Applicable

Consistency with *Building a City That Works*: Not Applicable

Comprehensive Plan Compliance: Not Applicable

Zoning Code Compliance: Not Applicable

Impact on MCDA Budget: (Check those that apply)

- ☐ No financial impact
- ☒ Action requires an appropriation increase to the MCDA Budget
- ☐ Action provides increased revenue for appropriation increase
- ☒ Action requires use of contingency or reserves
- ☐ Other financial impact (Explain):

Living Wage / Business Subsidy: Not Applicable

Crown Roller Mill,
105 Fifth Ave. S., Suite 200
Minneapolis, MN 55401-2534
Telephone: (612) 673-5095
TTY: (612) 673-5154
Fax: (612) 673-5100
www.mcda.org

Job Linkage: Not Applicable

Affirmative Action Compliance: The operator of the Terminal, River Services, Inc. has an approved Action Plan

RECOMMENDATION:

City Council Recommendation: The Executive Director recommends that the City Council

1. amend the 2003 MCDA Appropriation Resolution to increase the appropriation in Fund GEN0 in the amount of \$400,047 from the available fund balance; and
2. approve the transfer of \$400,047 from GEN0 (MCDA General Fund) to Fund ERT (River Terminal); and
3. amend the 2003 MCDA Appropriation Resolution to increase the appropriation in Fund ERT (River Terminal) by \$304,336 and increase the revenue budget (3820 – transfer from Special Revenue Funds) in Fund ERT in the amount of \$400,047; and
4. increase the River Terminal 2003 Annual Operating Budget by \$273,264 for a new total of \$3,007,636; and
5. approve, contingent on execution of the recommended contract amendment, the attached 2004 Operating Budget for the Terminal of \$2,980,368; and
6. authorize the appropriate City officials to execute an amendment to the Operating Agreement with River Services Inc. as described in this report.

Background/Supporting Information

CPED has been charged with management of the 48 acre, City owned River Terminal located at Dowling Avenue on the west bank of the Mississippi River. In the year 2000 the City entered into an agreement with River Services Inc. (RSI) to operate the Terminal. Under the terms of the agreement with RSI, revenues from the River Terminal operation are collected by the City in Fund ERT (River Terminal) and disbursed to pay a management fee to RSI and to reimburse RSI for defined operating costs. These funds are also used to meet administrative costs incurred by the City. In addition, the City is required to approve in advance each year's Operating Budget for the Terminal.

Appropriation Amendment

River Services Inc. the operator of the Upper Harbor Terminal has informed staff that they are projecting an increase in the cost of operations at the Terminal in 2003 over those reflected in the operating Budget approved at the beginning of the year. In addition, revenues are expected to be less than originally projected. As a result it is now projected that expenses (operating expenses, management fee, City administrative costs and interest cost) will exceed revenues by \$400,047 (Exhibit 1). Staff are recommending that the shortfall between revenues and expenses be made up through a transfer from the MCDA General Fund.

This report is also a request that the 2003 appropriation for the River Terminal Fund (Fund ERT) be increased by \$304,336. This increase, presented in Exhibit 2, is the difference between the MCDA Appropriation and the Operating Budget approved for 2003, projected increases in operating expenses, and interest expense resulting from the negative balance in Fund ERT.

The increase in River Terminal operating expenses was caused by breakdowns in aging equipment which led to unanticipated maintenance, delays in the handling of commodities and the need to rent replacement equipment. Total maintenance for the Terminal in 2003 was budgeted at \$600,187 and is now projected to be \$774,242. The most significant cost increases were for the crane (\$115,000 instead of the projected \$80,000) and shaker house conveying system (\$165,000 instead of the projected \$47,000). Equipment break downs not only led to increased maintenance costs but also necessitated unanticipated equipment rentals that exceeded the budget by nearly \$28,000. In addition, equipment breakdowns led to a significant increase in demurrage fees (cost charged by barge lines for unscheduled delays at the Terminal). Those costs were budgeted at \$9,000 and are now expected to exceed \$60,000

The costs summarized above, and presented in Exhibit 3, result in an increase in operating expenses at the Terminal of 8%. However, the appropriation request and amended Operating Budget reflect an increase in the operating budget of 10%. The difference of \$54,000 represents a request by RSI for contingency funds in the event that emergencies occur between now and the end of the year.

Additionally, revenues for 2003 (Exhibit 4) at the Terminal are expected to be less than originally projected. Decreases occurred in all aspects of the operation. Commodities that were most affected were twine (the result of importer consolidation), steel (import tariffs), magnetite (customer projection error), grain (methanol produced regionally and better shipping rates through Pacific ports than New Orleans) and salt (carried over from last year). In sum, revenues in 2003 are projected to be 11% or \$361,000 less than projected.

2004 Operating Budget

Article VI of the "Operating Agreement Between City of Minneapolis and River Services Inc." requires that the Operator (RSI) submit to the City a budget itemizing expenses for the ensuing year and City approval is required before those expenses can be incurred. Items to be included in the estimated budget are identified in Section 6.01 of the Agreement and include those for normal operations, repairs and maintenance, building repairs and improvements, replacement of equipment, advertising and other necessary expenses. Additionally, the Operator is to submit an estimate of revenues from operation of the Terminal.

Attached to this report are an itemized Operating Budget (Exhibit 5) and an estimate of the Terminal revenues for 2004 (Exhibit 6). Also included, as Exhibit 7, is an estimate of

the net revenues (gross revenues minus operating costs, management fee and City administrative expenses).

Staff are recommending that Council approval of the 2004 Operating Budget be contingent on execution of the amendment to the Operating Agreement as described below.

Contract Amendment

As a result of the significant loss in projected revenues and increases in expenses from those that were originally anticipated for 2003, CPED staff were able to obtain agreement with RSI to a proposed amendment to the Operating Agreement. The recommended amendment would guarantee that the City would incur no losses during 2004 and the City and RSI would split evenly any net revenues generated by the Terminal. With this amendment RSI would implement to the extent possible changes that were anticipated to begin in 2005. RSI will make changes to the operations at the Terminal to reduce costs and to concentrate on lines of business that are most likely to be profitable. These lines of business will focus on customers and commodities that will allow for better scheduling of commodity receipts and shipments and use of equipment that requires less maintenance. With these changes it is expected that labor, maintenance and utility costs will be markedly reduced.

Therefore, CPED is requesting that the City Council authorize an amendment to the existing agreement. The amendment would guarantee that the City would incur no losses in 2004, the last year of the existing agreement. In addition the City and RSI would split evenly any net revenues (gross revenues from operations of the Terminal minus expenses). RSI and staff have agreed that expenses would be defined as Operating Expenses as defined in the agreement, the management fee paid to RSI by the City and City administrative costs (not to exceed \$45,000).

Upper Harbor Terminal
Sources and Uses
2003

Item	Original	Final
Revenue	3,175,800	2,815,224
Operating Expenses	-2,734,372	-3,007,636
Fund ERT interest charges	0	-7,423
Management Fee	-160,212	-160,212
City Administration	-40,000	-40,000
Total	241,216	-400,047

Exhibit 1

**Fund ERT Appropriation Increase
2003**

Fund ERT Appropriation 2003	2,911,535
Difference between appropriation and approved Operating Budget	23,649
Requested increase in Operating Budget	273,264
Interest expense on negative balance in Fund ERT	<u>7,423</u>
Total (Requested new Appropriation)	3,215,871

Requested ERT Appropriation Increase	304,336
--------------------------------------	---------

Exhibit 2

Upper Harbor Terminal
2003
Amended
Operating Budget

Item	Approved	Projected	Change	% change
Payroll Wages and Taxes	1,276,337	1,262,467	-13,870	99%
Temporary Help	26,000	21,355	-4,645	82%
Pension Overhead and Gen. Admin.	229,741	236,966	7,225	103%
Workers Comp	140,397	135,431	-4,966	96%
General Insurance	43,868	43,024	-844	98%
Health and Disability Insurance	88,464	67,180	-21,284	76%
Boat Insurance	33,828	30,888	-2,940	91%
Professional Services	34,600	36,330	1,730	105%
Barge Surveying	12,000	8,300	-3,700	69%
Freight Charges	1,000	25,541	24,541	2554%
Supplies-office	18,000	15,517	-2,483	86%
Supplies-shop	7,992	8,732	740	109%
Supplies-safety	12,000	11,227	-773	94%
Postage/Delivery	3,325	1,843	-1,482	55%
Travel/Auto Expense	3,996	3,482	-514	87%
Dues & Subscriptions	1,515	787	-728	52%
Licenses & Permits	3,490	4,934	1,444	141%
Utilities-electricity	114,000	112,373	-1,627	99%
Telephone	13,992	12,431	-1,561	89%
Security	15,000	10,897	-4,103	73%
Rent-equipment	38,000	65,776	27,776	173%
Repairs & Maintenance	600,187	774,242	174,055	129%
Demurrage	9,000	61,583	52,583	684%
Bad Debt	0	0	0	
Miscellaneous	5,040	1,644	-3,396	33%
Marketing	2,600	686	-1,914	26%
Contingency	0	54,000	54,000	
TOTAL OPERATING EXPENSES	2,734,372	3,007,636	273,264	110%

Exhibit 3

**Upper Harbor Terminal
2003
Revised Revenue Projections**

Commodity	Original Estimate	Revised	%
Dredged Sand	161,000	117,564	73%
Twine	335,000	188,998	56%
Pipe/Granite	2,400	1,456	61%
Steel	400,000	101,501	25%
Fertilizer	180,000	411,866	229%
Coal	345,000	378,688	110%
Harbor Service	180,000	175,432	97%
Grain Service	15,000	8,182	55%
Rail Service	8,800	0	0%
Magnetite	140,000	27,081	19%
Elevator	191,000	168,674	88%
Grain Direct	280,000	147,317	53%
Salt	75,000	0	0%
16&8 thousand ton storage domes	500,000	424,068	85%
12&2 thousand ton storage domes	300,000	403,542	135%
Pig Iron	0	116,940	
Aggregate	52,100	130,700	251%
Miscellaneous	8,700	11,512	132%
Truck Scale	1,800	1,703	95%
Total	3,175,800	2,815,224	89%

Exhibit 4

Upper Harbor Terminal 2004 Operating Expenses

Payroll Wages and Taxes	1,391,563
Temporary Help	24,000
Pension Overhead and Gen. Admin.	250,481
Workers Comp	125,241
General Insurance	46,768
Health and Disability Insurance	72,724
Boat Insurance	34,032
Professional Services	36,000
Barge Surveying	7,000
Freight Charges	74,800
Supplies-office	16,995
Supplies-shop	7,992
Supplies-safety	12,001
Postage/Delivery	2,520
Travel/Auto Expense	3,996
Dues & Subscriptions	1,104
Licenses & Permits	4,500
Utilities-electricity	111,005
Telephone	12,996
Security	9,996
Rent-equipment	70,000
Repairs & Maintenance	646,249
Demurrage	13,005
Marketing	2,400
Bad Debt	0
Miscellaneous	3,000
Contingency	0
TOTAL OPERATING EXPENSES	\$2,980,368

**River Terminal
2004
Projected Revenues**

COMMODITY	PROJECTED REVENUE
Dredged Sand	284,800
Twine	228,000
Pipe/Granite	1,500
Steel	173,000
Fertilizer	504,000
Coal	354,000
Harbor Service	134,400
Grain Service	11,600
Rail Service	0
Magnetite	28,800
Elevator	212,000
Grain Direct	180,000
Salt	70,000
16&8 thousand ton storage domes	399,000
12&2 thousand ton storage domes	341,000
Miscellanies Handling	7,100
Pig Iron	172,000
Aggregate	82,000
Miscellaneous	800
Truck Scale	<u>1,800</u>
	\$3,185,800

Exhibit 6

**River Terminal
Projected
Revenues and Expenses
2004**

Gross Revenues	\$3,185,800
Operating Expenses	\$2,980,368
Management Fee (to RSI)	\$165,024
City Expenses	\$40,000
Net Revenue	\$408

Exhibit 7